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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
2000 Biennial Regulatory Review -- Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 3	)))))	CC Docket No. 00-199

COMMENTS OF THE UNITED STATES TELECOM ASSOCIATION

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TABLE OF CONTENTS

SUMMARY

The Commission should use its current authority under Sections 10 and 11 of the Telecommunications Act to streamline the outdated accounting and reporting requirements and to provide a plan for deregulation. Streamlining and/or eliminating these rules will not result in dire consequences. USTA and its members who are subject to these requirements have proposed changes to the current requirements to reduce the asymmetrical burdens that these rules impose and to save costs that other carriers do not have to bear. Incumbent LECs are proposing greater flexibility to allow them to replace current systems over time with systems that are less costly, less burdensome and more conducive to business operations. Information will be maintained and made available as needed. USTA's members have consistently stated that they will work with their state commissions to ensure that state regulators have the information they need.

Regulation has changed dramatically since the current accounting and reporting rules were implemented. The largest incumbent LECs have transitioned from rate of return to price cap regulation and, with pricing flexibility, the elimination of all vestiges of rate of return regulation. The current accounting and reporting rules no longer make sense for these carriers. In addition, the Commission has recognized that small and mid sized LECs lack the resources to comply with these rules. The Commission adopted Class B accounts and refrained from requiring these carriers to file ARMIS reports. These carriers are also proposing to adopt an incentive-based regulatory plan that will substantially reduce the link between costs and prices as well. All incumbent LECs should be permitted to use Class B accounts and all mid size carriers should be relieved from the CAM and ARMIS filing requirements and the CAM audit.

Competition and convergence have also evolved quite dramatically since the accounting and reporting rules were adopted. The asymmetric burdens imposed by these rules no longer make sense in a competitive environment.

As the Commission suggests, an incumbent LEC or group of LECs should be permitted to specify triggers that reflect their unique regulatory status, the market environment characteristic of their serving areas and that avoid duplicative filing of competitive information in order to receive relief from current accounting and reporting rules. It is not necessary for the Commission to make a determination of non-dominance in order to eliminate the accounting and reporting rules since the Commission has never viewed market share as an essential factor in evaluating market competition. Certainly the elimination of the LFAM in accordance with the pricing flexibility rules could serve as an effective trigger for price cap LECs. The elimination of LFAM removes the last vestige of rate of return regulation from price cap regulation and therefore eliminates the need for the prescribed Part 32 and 64 rules as well as ARMIS reports. However, the Commission should acknowledge that it has the statutory tools it needs to streamline and eliminate these rules under Sections 10 and 11 of the Telecommunications Act.

The Commission should also consider establishing a deadline by which these rules would be transitioned out of existence in 2005. The transition should begin this year with the adoption of USTA's Phase 2 recommendations. By 2003 the Commission should adopt additional steps toward deregulation as follows:

-Replace the consolidated ARMIS financial report with an Income Statement and Balance Sheet.

-Allow LECs to use GAAP instead of the current Part 32 and Part 64 rules related to time reporting and clearing accounts.

-Eliminate the Part 64 audit for the largest LECs.

-Eliminate the special studies in Part 64.

-Eliminate Section 64.901(c).

-Eliminate the Interstate Rate of Return Report, FCC 492A.

The adoption of USTA's Phase 2 proposals in 2001 and the additional streamlining described above in 2003 will pave the way for the Commission to eliminate the Part 32 chart of accounts, Part 64 and the current ARMIS reports in 2005.

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**COMMENTS
OF THE
UNITED STATES TELECOM ASSOCIATION**

The United States Telecom Association (USTA) respectfully submits its comments in the above-referenced proceeding. USTA is the nation's oldest trade association for the local exchange carrier (LEC) industry. USTA represents more than 1,200 telecommunications companies worldwide that provide a full array of voice, data and video services over wireline and wireless networks. Among USTA's members are those incumbent LECs subject to the Commission's accounting and ARMIS reporting requirements. These requirements subject incumbent LECs to needless regulation.

I. INTRODUCTION

In its Notice of Proposed Rulemaking released October 18, 2000, the Commission proposed a three-phase approach to streamline or eliminate existing accounting and reporting requirements. In Phase 3, the Commission is undertaking a broader examination of Part 32 and ARMIS requirements with the goal of determining what additional changes can be made as competition develops and assessing ultimately what, if any, specific accounting and reporting requirements are necessary when local exchange markets become sufficiently competitive. The

Commission seeks comment on what roadmap it should follow for accounting and reporting deregulation.

This is the approach the Commission should have taken when it initiated this proceeding as it is consistent with the statutory requirements for biennial review. The Commission originally called for a comprehensive review of the accounting and reporting requirements in two phases which has been dragged out to three phases. In Phase 1 the Commission failed to eliminate a single account or subaccount. In Phase 2, the Commission actually asked for comment on proposals to increase the number of accounts and subaccounts and to increase the reporting detail. Even in Phase 3, the Commission does not propose any definitive plan or even suggest a timeframe under which it will eliminate these unnecessary rules. The Commission has the tools necessary to take a fresh look at the accounting and reporting requirements as will be discussed below. It is long past time for the Commission to use its statutory authority to streamline these outdated rules and provide a plan for deregulation.

Commenters in this proceeding, including state regulators and the competitors of the incumbent LECs, have attempted to create an impression that streamlining and/or eliminating the current prescribed Part 32 accounts or the current ARMIS reports will have dire, even cataclysmic, consequences. This is simply not true. USTA and its members who are subject to these requirements have proposed changes to the current rules to reduce the asymmetrical burdens these rules impose and to save costs that other carriers do not have to bear. Incumbent LECs will continue to keep accounts and will continue to maintain data, but need the flexibility to keep accounts and maintain data just as their competitors keep accounts and maintain data. Even if Part 32 were to be eliminated today, incumbent LECs would not be able to immediately scrap current accounting systems. However, the elimination of the current, prescribed accounts would provide them with the opportunity to replace these systems over time with systems that are less costly, less burdensome and more reflective of their individual business operations. USTA has demonstrated in previous filings that the elimination of the current Part 32 accounts will not cause the end of universal service support, pole attachment fees or UNE pricing. USTA's members have consistently stated that they are willing to work with their state commissions to ensure that the state regulators have the information they need.

II. THE ACCOUNTING AND REPORTING RULES MUST BE STREAMLINED CONSISTENT WITH OTHER CHANGES IN REGULATION IMPLEMENTED TO ACCOMMODATE THE COMPETITIVE ENVIRONMENT

Regulation has changed dramatically since the current accounting and reporting rules were implemented. Even a brief synopsis of the changes provided herein demonstrates that the reasons that these rules were created have changed significantly. If the Commission does a comprehensive review of these rules, it will find that none of the circumstances that existed when these rules were created exist today.

ARMIS was created in 1987 to assist the Commission in analyzing revenue requirement and rate of return data and to improve its audit and oversight functions. Such functions were required under the "cost plus" system of regulation utilized by the Commission in which the prices that carriers charged for services were based on cost plus a return on invested capital. The Uniform System of Accounts (USOA) revised in 1988, and the various cost apportionment rules such as those adopted by the Commission in Part 64 (Joint Cost rules), Part 36 (Separations) and Part 69 (Access Charge rules) were developed to facilitate the cost plus regulatory scheme.

In January 1991, however, the Commission implemented an incentive-based form of price cap regulation for the largest incumbent LECs. Price cap regulation was designed to replicate competitive market forces by encouraging incentive improvement benefits. Under price cap regulation, prices were capped according to a formula that included an annual adjustment to encourage carriers to become more efficient in relation to the overall economy. Financial accounting costs were no longer used to determine prices. The price cap plan initially required sharing of the earnings gained as carriers increased their efficiency. The plan also included a lower formula adjustment mechanism that allowed for a correction should a carrier's earnings fall below a specified rate of return. Although price cap regulation eliminated the direct link between prices and costs, accounting and reporting rules were needed to implement the earnings sharing and low end adjustment mechanism.

The Telecommunications Act of 1996 required the Commission to establish a pro-competitive, de-regulatory national policy framework. Congress eliminated the exclusive monopoly franchises granted to the incumbent LECs and required that all telecommunications markets be opened to competition. Incumbent LECs were required to grant competitors greater access to their local networks through collocation, the purchase of unbundled network elements, resale of wholesale services and interconnection. Carriers could negotiate interconnection agreements consistent with national policy guidelines established by the Commission. The Commission determined, in the Local Competition proceeding, that prices for unbundled network elements should be based on forward looking costs, not embedded financial accounting costs.

In May 1997, the Commission adopted a market-based approach to access pricing designed to accelerate the development of competition and to ensure that its regulations do not unduly interfere with the operation of markets as competition develops. The Commission intended price cap regulation to transition away as competitive forces replaced regulatory forces in controlling prices. The Commission also eliminated the earnings sharing requirements of its price cap plan. By eliminating sharing, the Commission removed the major vestige of rate of return regulation and eliminated any incentive for price cap LECs to shift costs. In August 1999, the Commission adopted a framework to permit price cap carriers limited pricing flexibility if rigorous competitive triggers were demonstrated. Once pricing flexibility was granted, however, price cap carriers were required to give up the Lower Formula Adjustment Mechanism (LFAM). This requirement completely de-links prices and costs for these carriers.

In October 1999, the Commission determined that universal service support for non-rural carriers should be based on a forward looking proxy model, not embedded financial accounting costs.

In its most recent action, on May 31, 2000, the Commission adopted the CALLs plan for price cap carriers. CALLs was an integrated access reform/universal service plan that restructured access rates to remove implicit subsidies. Rates under CALLs were not based on the development and reporting of costs under any of the Commission's accounting and reporting rules.

Even as it broke the link between prices and costs for the largest carriers, the Commission recognized that its accounting and reporting rules were too burdensome for small and mid size carriers operating under rate of return regulation and their customers. In 1988, the Commission adopted Class B accounts for small and mid size LECs under a certain arbitrary revenue threshold. The Class B account structure reduced the number of accounts as well as the rules associated with each of the accounts. This provided much needed administrative relief for carriers that lack the resources necessary to comply with the Commission rules. The Commission also refrained from requiring these carriers to file ARMIS reports. In 1998, the Commission expanded the number of carriers that would be eligible to use Class B accounts and that would be relieved of the ARMIS reporting requirements by raising the revenue threshold. As USTA has argued in Phase 2 of this proceeding, all carriers should be permitted to use Class B accounts and the current thresholds that trigger the filing of a CAM as well as the ARMIS reports should be increased to ensure that all mid size carriers obtain relief from these onerous requirements. The Commission should also eliminate the CAM audit for these carriers.

The rate of return LECs have also proposed an integrated access reform/universal service plan that provides for incentive-based regulation and substantially reduces the link between prices and costs.[1] The MAG plan is currently under consideration by the Commission.

When the current rules were implemented there was very little if any competition. Of course this has changed dramatically and has led the Commission to modify regulation over time as described above. Competition is a reality and is increasing at lightning speed. BellSouth has met the competitive triggers necessary to receive pricing flexibility for special access in 39 MSAs as well as for switched access service. Several other pricing flexibility applications are currently under Commission consideration. SBC and Verizon have met the extensive 14 point competitive checklist and received state commission, Department of Justice and Commission approval to offer in-region interexchange service. In its Phase 2 comments Roseville Telephone Company, a mid sized company, reported that over ten CLECs provide local exchange and access service to customers in its serving area. The Company had already lost over nine percent of its business access lines, as well as some residential lines and an unidentified portion of new growth to competitors. The Commission has before it an overwhelming amount of evidence regarding the extent of competition in CC Docket Nos. 96-262 and 96-98. Three new reports

[1] Multi-Association Group (MAG) Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers, Federal-State Joint Board on Universal Service, Access Charge Reform for Incumbent Local Exchange Carriers Subject to Rate of Return Regulation, Prescribing the Authorized

were cited by the Commission staff in its Biennial Regulatory Review Report for the Year 2000 document competitive developments. One of those reports, "Telecommunications @ the Millennium" released by the Office of Plans and Policy, states that local competitors have been particularly successful in the business market, where competitors have added 65 percent of all new lines deployed in the third quarter of 1999.[2] Of course it is well documented that new competitors target business customers and generally have not included residential service in their business plans, as of yet. In addition, the report notes that more people are beginning to see wireless telephones as substitutes for their wireline services due to dramatic price decreases and increases in service quality.[3] Before he became Chairman of the Commission, then Commissioner Michael Powell acknowledged that the growth of competition must result in a change in regulation:

> The movement toward a competitive environment means that we must take into fuller consideration the necessity, viability and the potentially distorting competitive consequences of the old familiar regulatory devices. Thus, to the extent we must speculate about potential harm (to competition and consumers) we must, too, factor in more fully the potential disciplining effects of both real competition and potential competition. I see a continued tendency to invoke the ancient mantra 'to protect against discriminatory this or that' as glib justification for continued regulatory constraints. I believe we must work harder and press more heavily on traditional rationales.[4]

USTA has also pointed out that convergence in the communications marketplace will have a dramatic impact on the market structure, rendering rules designed solely for "incumbent LECs" obsolete.[5] Convergence is accelerating at a phenomenal pace due to increases in Internet,

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Rate of Return for Interstate Services of Local Exchange Carriers, CC Docket Nos. 00-256, 96-45, 98-77 and 98-166, *Notice of Proposed Rulemaking* (rel. Jan. 5, 2001).

[2] *Telecommunications @ the Millennium*, FCC Office of Plans and Policy (rel. Feb. 8, 2000) at 18.

[3] *Id.* at 22.

[4] Separate Statement of Commissioner Michael K. Powell, Re: Petition for Forbearance of the Independent Telephone and Telecommunications Alliance (AAD File No. 98-43) and related proceedings (CC Docket No. 97-11, CC Docket No. 98-81, CC Docket No. 96-150, CC Docket No. 98-117, WT Docket No. 96-162, CC Docket No. 96-149, CC Docket No. 96-61 at 1-2.

[5] USTA Petition for Rulemaking – 2000 Biennial Regulatory Review, Aug. 11, 1999 at 8-18.

data and wireless traffic. As a result, companies of all types are positioning themselves as national and even global communications providers. Companies defy old labels such as LEC, IXC, CMRS, CATV, ESP and ISP that only have relevance in the traditional regulatory arena because regulation and its accompanying costs only attach to certain labels. This is now a multi-network, multi-provider, multi-service digital and broadband-based world. Convergence renders the micro-management of incumbent LEC business operations unnecessary and imposes costs and administrative burdens that are disproportionate relative to the freedoms enjoyed by their competitors offering the same services. Disparate regulatory treatment due to the application of arcane regulations that do not recognize network convergence as well as adaptations of networks to broadband deployment must end. Regulatory parity for the offering of functionally equivalent services delivered over different technological platforms and infrastructures should be implemented by all the divisions of the Commission.

While there will be many commenters that will claim that these rules can never be eliminated, such statements are not true. As noted above, there are many unregulated entities offering telecommunications services without Part 32 accounts or ARMIS reports. For example, these entities set pole attachment rates without Part 32. In its Phase 2 comments, USTA explained that neither the non-rural nor the rural universal service support mechanisms depend upon Part 32 accounts. There is no Part 32 account or ARMIS line that identifies the cost associated with collocation or interconnection.[6] As USTA also noted in its Phase 2 comments, UNE prices are not based on embedded accounting costs, but are forward looking. Finally, whatever underlying data that LECs must use to operate their business, in addition to whatever state requirements are imposed will be maintained and will be accessible if necessary.

III. INCUMBENT LECS SHOULD BE PERMITTED TO SPECIFY TRIGGERS TO RECEIVE RELIEF FROM CURRENT ACCOUNTING AND REPORTING RULES

The Commission seeks comment on whether there are certain triggers that will allow the Commission to significantly modify or relieve certain accounting and reporting requirements that currently apply only to incumbent LECs. Certainly there are triggers available that signal competition has reached a certain level or that an incumbent LEC is embarking on a business strategy that requires greater flexibility. However, the Commission should acknowledge and utilize the tools provided by Congress to review and eliminate regulation that is a by-product of the old regulatory paradigm. In the Telecommunications Act, Congress expanded the Commission's forbearance authority under Section 10 and determined that forbearance petitions be granted if not acted on by the Commission within a specified time period. Congress also created the biennial review in Section 11 under which the Commission is required to review all of its regulations every two years and to identify and either streamline or eliminate regulation that is no longer necessary in the public interest as a result of meaningful economic competition. While state regulators or the competitors of incumbent LECs may complain that regulatory relief is not warranted because residential competition is not sufficient, that is not the statutory standard. "Though Congress made judgments about the competitive ground-rules, it did not endeavor to sweep through our regulations and apply those judgements to each and every structural requirement on the books. Instead, it directed us to search out such rules and apply the new paradigm. To do so, it gave the Commission the twin engines of the biennial review and

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[6] Part 32 is a functional accounting system, not a service specific system of accounts. *See,* 47 CFR 32.2(c) that states "The financial accounts of a company should not reflect an a priori allocation of revenues, investments or expenses to products or services, jurisdictions or organizational structures."

forbearance."[7] If applied as Congress intended and not in the lackadaisical manner employed by the Commission to date, these tools can be used to streamline and eliminate current regulation.

The NPRM seems to suggest that accounting and reporting relief should be tied to a competitive showing. The Commission has already adopted several competitive triggers that competition is at a Commission-approved level. Since these triggers do not apply to all incumbent LECs, carriers should be permitted to utilize a trigger that addresses its current regulatory status, reflects the market environment characteristic of its serving area and avoids duplicative filing of competitive information. It is not necessary for the Commission to make a determination of non-dominance in order to eliminate the accounting and reporting rules. The Commission has never viewed market share as an essential factor in evaluating market competition.[8]

The pricing flexibility plan for price cap carriers could serve as a trigger for the elimination of accounting and reporting requirements since the elimination of the LFAM required under the plan removes the last vestiges of rate of return regulation from price caps. The pricing flexibility triggers measure market competition based on investment in infrastructure by potential competitors. Price cap LECs must show that competitors have made irreversible investments in the facilities needed to provide the services for which relief is sought. This must be done by demonstrating that unaffiliated competitors have collocated in a certain percentage of wire centers and that, for dedicated transport and special access services, at least one collocator is using transport services obtained from another provider. With the elimination of the LFAM, the prescribed Part 32 and Part 64 rules, as well as the ARMIS reports would no longer be required. The U.S. Court of Appeals for the District of Columbia Circuit recently upheld the

[7] Powell at 3.
[8] *AT&T v. FCC*, No. 99-1535, *slip op.* at 13 (D.C. Cir. Jan. 23, 2001).

pricing flexibility triggers, noting that "collocation can reasonably serve as a measure of competition in a given market and predictor of competitive constraints upon future LEC behavior."[9]

IV. A ROADMAP LEADING TO THE ELIMINATION OF PART 32 AND ARMIS REPORTS CAN BE ADOPTED

The Commission requests comment on what roadmap it should follow for accounting and reporting deregulation. USTA urges the Commission to commit to deregulation by 2005 as its Phase 3 objective. Specifically, the objectives of Phase 3 should be the elimination of a prescribed chart of accounts, the elimination of required ARMIS reports and the elimination of Part 64. As stated in its Phase 2 comments, USTA recommended that the Commission begin the transition to deregulation in Phase 2 with firm dates indicating when the transition will end and deregulation will occur. The streamlining proposed by USTA in its Phase 2 comments provide the first step. These reforms should be implemented this year. Briefly, Phase 2 relief must include, in Part 32, permitting all incumbent LECs to use the Class B accounts along with additional streamlining of these accounts, and affirming that incumbent LECs can begin the transition to GAAP accounting. In ARMIS, Phase 2 should include the consolidation of the financial ARMIS report and the elimination of the infrastructure reports as well as the elimination of the ARMIS reporting requirement for all mid-sized LECs. In Part 64, USTA recommended streamlining these requirements as well as eliminating the audit and the CAM for all mid-sized LECs. While USTA proposed that deregulation should occur by 2005, additional streamlining will facilitate the transition and reduce the possibility of dislocations that could occur if, for example, GAAP were to be implemented on a flash cut basis. If USTA's proposed

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[9] *WorldCom v. FCC*, No. 99-1395 *slip op.*, at 14 (D.C.Cir. Feb. 2, 2001).

reforms are adopted in Phase 2, these additional steps toward deregulation should be implemented in 2003:

<u>ARMIS Reports</u>

The Commission should replace the remaining ARMIS consolidated financial report with an Income Statement and Balance Sheet. The columns would reflect Total Company, Total Regulated and Total Interstate data. The data would be collected and reported at the operating telephone company level. State financial reports would not be affected. The Broadband Competitive Analysis report would be maintained at its current level of reporting detail and would not be expanded to other carriers.

<u>Time Reporting and Clearing Accounts</u>

Currently both Part 32 and Part 64 include detailed requirements associated with time reporting and clearing accounts. The Commission should eliminate the detailed instructions related to labor hours used and rely instead on GAAP internal controls. The detail required for labor hours in Part 32 and the filing requirements in Part 64 are burdensome and inflexible and are, therefore, increasingly difficult to utilize as technology changes. The current requirements lead to costly operational processes that can be eliminated without affecting accurate cost assignment. In addition, the Commission's delays in addressing LEC requests for changes, forces these carriers to retain outdated, inefficient methods for years before the Commission finally acts on their requests.

Part 32 relies on the recording of reported labor hours as a basis for determining certain expense and capital records. Where Part 32 and GAAP or tax accounting differ is that Part 32 still requires the use of time data for determining expense and capital records, while GAAP and tax accounting require that costs be assigned to the appropriate capital or expense accounts in a systematic and rational manner and changes based on evolving business conditions are allowed. Part 32 requirements do not permit changes even as business conditions change.

Part 32 requires clearances be based on direct labor hours for accounts 32.6112 Motor Vehicle, 32.6113 Aircraft Expense and 32.6114 Special Purpose Vehicles. For each of these accounts, Part 32 specifies that "Credits shall be made to this account for amounts transferred to Construction and/or other Plant Specific Operations Expense accounts. These amounts shall be computed on the basis of direct labor hours." In addition, Part 32 requires transfers of appropriate amounts to construction based upon direct labor hours for Accounts 6534 Plant Operations Administration Expense and 6535 Engineering Expense. While GAAP does not specifically require assigning these costs to final expense accounts, this assignment is consistent with GAAP reporting categories (i.e., the costs are considered incremental costs associated with construction and as such should be included in the cost of construction.)

The Commission requirement for labor hours-based allocation has been in place since 1988. While it was reasonable then, it no longer reflects how LECs do business. The process of acquiring assets has evolved. Now, vendors engineer, furnish and install significantly more of the equipment resulting in less carrier labor. Maintenance activities are now outsourced as well. Allocation of these costs based on direct labor hours is no longer appropriate. Rather than dictating specific methods related to time reporting, the Commission should allow LECs to apportion/clear these costs based on a rational and systematic methodology as is acceptable under GAAP.

In addition, Section 64.903(a)(6) has required that detailed time reporting methods be included in the CAMs since 1988. Section 64.903(b) requires filing changes to time reporting methods with the Commission prior to implementation. Few LECs have requested to change time reporting methods because the burdensome and lengthy process required by the Commission before such changes can be implemented defeats the purpose. For example, SBC filed notification under Section 64.903 for use of statistical sampling for field technicians in March 1999. SBC presented a statistical sampling process for field technicians to the Commission in October 1997. The Commission undertook a lengthy review process which included on-site visits by Commission staff, design of an external auditor work plan and review of the draft external auditor report and workpapers. It took sixteen months for SBC to receive formal approval.

In the transition to Phase 3, this problem can be resolved by changing the rules for the Part 32 accounts listed above as follows: "<u>These costs should be transferred as appropriate based on a rational and systematic loading process.</u>" Elimination of these Part 32 and 64 requirements related to time reporting will allow carriers to continue their transition to GAAP.

<u>Part 64</u>

The Commission should eliminate the Part 64 audit for the largest incumbent LECs since booked costs are no longer used to establish prices. The on-going audit requirement is an extremely costly burden on incumbent LECs. The requirement to perform special studies should be eliminated. Finally, the Commission should eliminate Section 64.901(c). While Section 254(k) of the Telecommunications Act, which ensures that universal services will not be used to unfairly subsidize competitive services, is an important protection it should no longer be codified in Part 64. As USTA demonstrated in Phase 2, expense to investment ratios are not substantially different whether total company, total regulated or total subject to separations data are used to calculated the nation-wide average ratios. Further, the Commission had to use regression analysis and data on lines and minutes to determine average overheads for the non rural universal service proxy model. The Commission has instituted many changes that substantially reduce any potential for unfair subsidization to occur. The link with historical embedded costs has been removed under price cap regulation and LECs under price cap regulation must manage their costs based on the productivity of their business operations. This link will also be substantially reduced under MAG. Universal service for nonrural carriers is based on a forward-looking proxy. Unbundled network elements are based on forward-looking prices and are subject to intense scrutiny by regulators, competitors, and consumers. More important, Section 254(k) applies to all universal service providers, not just incumbent LECs and should not be codified in a rule that only applies to incumbent LECs.

<u>Interstate Rate of Return Report, FCC 492A</u>

This report should be eliminated, as price cap carrier rates are no longer linked to booked costs.

The adoption of USTA's Phase 2 proposals in 2001and the additional streamlining described above in 2003 will pave the way for the Commission to eliminate the Part 32 chart of accounts, the Part 64 requirements and the ARMIS reports in 2005.

V. CONCLUSION

Reform of the accounting and reporting rules has lagged far behind the other regulatory changes the Commission has undertaken to reflect the changing telecommunications environment. It is past time for the Commission to utilize its Section 10 and Section 11 authority to eliminate these requirements. These rules are outdated and no longer reflect regulatory, competitive or management needs. The Commission should establish a timeframe to eliminate these rules by 2005, utilizing the transition mechanism recommended by USTA in its Phase 2 and Phase 3 comments. It may also be possible for an incumbent LEC to utilize a trigger that addresses its current regulatory status, reflects its market and avoids duplicative reporting. The objective, however, should be to eliminate these rules in a reasonable timeframe.

Respectfully submitted,

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February 13, 2001

CERTIFICATE OF SERVICE

I, Meena Joshi, do certify that on February 13, 2001, Comments of The United States Telecom Association was either hand-delivered, or deposited in the U.S. Mail, first-class, postage prepaid to the attached service list.

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